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Message Text

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PAGE 01 EC BRU 01628 240748 Z

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ACTION EUR-25

INFO OCT-01 IO-12 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 SAL-01 SS-14 STR-08 OMB-01 CEA-02 CIAE-00

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FM USMISSION EC BRUSSELS
TO SECSTATE WASHDC 4929
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY COPENHAGEN
AMEMBASSY DUBLIN
AMEMBASSY THE HAGUE
AMEMBASSY LONDON
AMEMBASSY LUXEMBOURG
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION GENEVA
USMISSION OECD PARIS

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E. O. 11652: N/ A
TAGS: EFIN, US, EEC
SUBJ: MARCH 22 EC COUNCIL: EC COMMISSION DOCUMENT ON THE
ECONOMIC SITUATION IN THE COMMUNITY

REF: (SEE SEPTEL ON MARCH 22 EC COUNCIL MEETING OF
FINANCE MINISTERS)

1. THE EC COMMISSION HAS SENT TO THE COUNCIL A
REPORT (POUCHED TOGETHER WITH SUGGESTED GUIDELINES FOR 1973.
FOR THE FIRST TIME, GUIDELINES ARE PROVIDED FOR THE NEW
MEMBER STATES. HIGHLIGHTS OF THE REPORT FOLLOW: THE
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Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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COMMISSION SAYS THAT THE EVOLUTION OF COSTS AND PRICES IN 1972 HAS REACHED A DEGREE UNKNOWN SINCE THE CREATION OF THE COMMU- NITY. THE INCREASE IN CONSUMER PRICES RANGED FROM 5.7 PERCENT IN LUXEMBOURG TO 8.2 PERCENT IN IRELAND.
THE MEDIUM- TERM OUTLOOK FOR PRICES REMAINS VERY UNGAVORABLE, WITH INCREASES IN 1973 ESTIMATED AT 6 TO 7 PERCENT. CONTINUATION OF SUCH INCREASES ACCORDING TO THE COMMISSION WOULD CERTAINLY HAVE SERIOUS SOCIAL CONSEQUENCES.
WITH REGARD TO GROWTH, GNP FOR THE COMMUNITY IS EXPECTED TO RISE BY 5 PERCENT IN 1973 OVER 1972. RECENT EXCHANGE RATE ADJUSTMENTS ARE UNLIKELY TO HAVE ANY SIGNIFICANT EFFECT ON ECONOMIC EXPANSION AND EMPLOYMENT FROM 1973 ON.

2. THE COMMISSION NOTES THAT GIVEN THE RAPID RISE IN COSTS AND PRICES SINCE THE BEGINNING OF 1973, ITS OBJECTIVE OF LIMITING THE LEVEL OF CONSUMER PRICE INCREASES TO 4 PERCENT IN 1973 CANNOT BE FULFILLED.
IN THE FUTURE, PARTICULARLY AS THE COMMUNITY MOVES FROM THE SECOND TO THIRD PHASE OF ECONOMIC AND MONETARY UNION, COMMON SHORT- TERM POLICY GUIDELINES MUST BE DEFINED AND APPLIED MORE RIGOROUSLY. TO SUPPLEMENT JOINT MEASURES TAKEN BY THE MEMBER STATES, THE COMMISSION BELIEVES THAT COMMUNITY ACTION IN THE FIELD OF TRADE WOULD BE HELPFUL IN CHECKING PRICES INCREASES. CONSEQUENTLY, THE COMMISSION ASKS THE COUNCIL TO ADOPT THE PROPOSALS SUBMITTED JANUARY 29, 1973, CONCERNING TEMPORARY REDUCTION OF IMPORT DUTIES, ENLARGEMENT
OF REMAINING IMPORT QUOTAS, AND HIGHER QUOTA LEVELS OR ZERO DUTY CEILINGS ON GOODS SUBJECT TO GENERALIZED PREFERENCES, (SEE EC BRUSSELS 458, JANUARY 29, 1973.
THE COMMISSION' S PROPOSAL WAS FOR A 20 PERCENT REDUCTION OF IMPORT DUTIES ON CERTAIN SELECTED FINISHED PRODUCTS FOR A PERIOD OF SIX MONTHS. THE COUNCIL DID NOT ACT ON THIS PROPOSAL.)

3. THE COMMISSION ALSO POINTS OUT THE NECESSITY OF SLOWING DOWN THE INCREASE IN AGRICULTURAL PRICES WHEN THESE ARE NEXT FIXED, ALTHOUGH IT NOTES THAT SUCH ACTION IS ACCEPTABLE ONLY IF DEFICIENCY PAYMENTS ARE MADE TO THE MOST NEEDY FARMERS AND IF A MORE SATISFACTORY EMPLOYMENT SITUATION IS ACHIEVED IN AGRICULTURAL AREAS. FOR MEMBER STATES AT OR NEAR FULL EMPLOYMENT, RESTRAINING THE INCREASE IN INTERNAL DEMAND SHOULD BE THE FOCAL POINT OF ECONOMIC POLICY.
IN THESE COUNTRIES, THE ABSENCE OF INTERVENTION TO
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SUPPORT THE DOLLAR ESTABLISHES A CONSTRAINT IN MONETARY POLICY, SINCE ANY INCREASE IN INTEREST RATES COULD CREATE TOO MUCH PRESSURE ON EXCHANGE RATES. AS A RESULT, FISCAL POLICY BECOMES MORE IMPORTANT. THESE COUNTRIES SHOULD ALSO NEUTRALIZE THE INTERNAL LIQUIDITY EFFECTS OF RECENT CAPITAL INFLOWS. FOR THE UK, ITALY AND IRELAND, WHICH FACE COST- PUSH INFLATION AND SERIOUS PROBLEMS OF EMPLOYMENT, MONETARY AND FISCAL POLICY DESIGNED TO PROMOTE ECONOMIC EXPANSION AND EMPLOYMENT MUST NEVERTHELESS BE CONTAINED WITHIN CERTAR LIMITS.

4. IN THE MEDIUM TERM, SOME MEMBER STATES RISK LOSS OF COMPETITIVE ABILITY TRACEABLE TO INCREASES IN COST AND PRICES AS WELL AS TO THE DELAYED EFFECTS OF REPEATED EXCHANGE RATE ADJUSTMENTS. WITH INFLATIONARY TENDENCIES MARKEDLY STRONGER IN THE COMMUNITY THAN IN THE US, THE COMMISSION SAYS IT IS TO BE FEARED THAT INFLATION MAY BECOME SO DEEPLY ROOTED IN THE COMMUNITY THAT IT WILL INCREASE EVEN AS BALANCE OF PAYMENTS EQUILIBRIUM IS ACHIEVED. SUCH A DEVELOPMENT COULD JEOPARDIZE THE EXPANSION OF WORLD TRADE AS WELL AS BALANCED GROWTH WITHIN THE COMMUNITY, GIVING RISE TO NEW TENSIONS, WITHIN THE COMMUNITY TTAT IN TURN MIGHT HAVE AN ADVERSE EFFECT ON THE CREATION OF ECONOMIC AND MONETARY UNION.
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To: BONN
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